



MINISTER OF
CONSUMER AND CORPORATE AFFAIRS

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FOR WOMEN'S ISSUES

104 Legislature Building, Edmonton, Alberta, Canada T5K 2B6 403/427-2305

The Honourable Dr. David J. Carter
Office of the Speaker
Legislative Assembly of Alberta

Sir:

I have the honour to submit the Annual Report prepared by the Chairman of the Alberta Securities Commission for the year ending March 31, 1987.

Respectfully submitted,

A handwritten signature in cursive script, reading "Elaine McCoy".

Elaine J. McCoy
Minister of Consumer and Corporate Affairs





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The Honourable Elaine McCoy
Minister of Consumer and Corporate Affairs

Madam:

I have the honour to submit the Annual Report of the Alberta Securities Commission for the year ended March 31, 1987.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "E.B. Allan". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

E.B. Allan, F.C.A.
Acting Chairman
Alberta Securities Commission



**THE ALBERTA SECURITIES COMMISSION
ANNUAL REPORT 1986/87**

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ALBERTA SECURITIES COMMISSION

ANNUAL REPORT

1. PURPOSE

The principal purpose of the Alberta Securities Commission is the effective administration of the Alberta Securities Act and the Franchises Act, to assure that the securities industry, in developing fair and efficient capital markets, provides adequate investor safeguards and awareness. This mandate is accomplished mainly by requiring the registration of persons and dealers who trade in securities and franchises, the review and clearance of prospectuses (full, true and plain disclosure documents which are required to be filed to trade in securities or franchises) and taking enforcement action against those who violate the Securities Act and Franchises Act.

In addition, the Commission has legislative authority for administration of the Deposits Regulation Act which covers the solicitation of deposits from the public in certain stated circumstances by persons or organizations not otherwise regulated by other government bodies.

2. ORGANIZATION OF THE COMMISSION

The Commission is a two-tiered structure consisting of a Commission Board ("Board") and the Commission staff ("Staff").

2.1 The Board

The Board, which is limited to a membership of seven, currently comprises a full-time Chairman and five part-time Commissioners appointed from the general public. The Chairman of the Board, William T. Pidruchney, Q.C., is the chief executive officer of the Commission. The Board consists of Patrick J. Cashion, C.A., Norman F. Elsey and Robert G. Donlevy, all of Calgary; William T. Pidruchney, Q.C. and Edward B. Allan, F.C.A., both of Edmonton; and Douglas R. Craig, P. Eng., of Carbon.

The Board establishes policies for administration of the Securities and Franchises Acts, serves as a quasi-judicial tribunal in conducting administrative hearings, and serves as an appeal body where required by those statutes.

In addition, the Board is designated as a hearing tribunal pursuant to other legislation including the Alberta Business Corporations Act and the Investment Contracts Act.

The Board meets at regular intervals, alternately in Edmonton and Calgary and holds additional meetings and hearings when and where required.

2.2 The Staff

At the end of March, 1987, the staff of the Commission numbered 54 full-time employees and four lawyers seconded from the Department of the Attorney General.

The Staff is organized into four sections:

- 2.2.1 The Securities section reviews prospectuses and other documents where there is to be a distribution of securities to the public;
- 2.2.2 The Franchises section reviews prospectuses and other documents for the distribution of franchises and financial statements of securities dealers who are not members of a self-regulatory organization.
- 2.2.3 The Market Standards section investigates suspected violations of the legislation and, in appropriate cases, recommends either administrative proceedings before the Commission or criminal prosecutions.
- 2.2.4 The Registration and Administration section attends to the registration of salesmen, dealers and advisers and attends to logistical requirements of the Commission.

The Commission has an office in Edmonton and an office in Calgary; the main office and majority of staff are in Edmonton. The Calgary office has three investigators and two secretaries, and is attended on a regular basis by the Commission Board, the Chairman, the Director, Deputy Directors and members of the legal staff.

3. ACTIVITIES AND OPERATIONS

Levels of activity remained high throughout the fiscal year. Filings of preliminary prospectuses increased by 121% over the previous year, while the overall increase in all filings was 7%.

The Commission operated within the guidelines of its budget and manpower allocation. The Commission continuously reviews its activities in light of the government's objectives to eliminate unnecessary regulation and to be more sensitive to the needs of the public. The management planning committee and regular management meetings assisted in meeting these objectives.

The Commission publishes a Weekly Summary, available to subscribers, which contains information on Commission orders, rulings, notices, new policies, insider trading activity and other matters of interest to the public.

The Commission continued work on a number of special projects including the finish of its review and updating of the Regulations to the Securities Act and its review and total re-writing of the Commission's policies, notices and blanket orders, both in effect March 15, 1987.

The Commission continued its "experience-sharing" secondment program in which individuals from investment industry related firms work for up to a year at the Commission to gain insight into the regulatory process.

As a member of the Canadian Securities Administrators (the "CSA"), the Commission participated in that group's regular semi-annual meetings. This informal association of all provincial securities regulators in Canada works toward nation-wide compatibility and uniformity of regulation through the development of national and uniform policies adhered to by the signatory Commissions. The semi-annual Spring meeting of administrators was held in Toronto, April 29 - May 1, 1986; the semi-annual Fall meeting was held in Vancouver, November 12-14. Both meetings were chaired by the Chairman of the Alberta Securities Commission.

The Commission is a member of the North American Securities Administrators Association (NASAA) and is represented at its semi-annual meetings. NASAA provides a window on all securities activities in the United States and in Mexico.

The Alberta Stock Exchange comes within the regulatory scope of the Securities Act and the Commission maintains a close contact and a good working relationship with the Board of Governors and the administrative staff of the Exchange.

Regular communication is also maintained with the Investment Dealers Association of Canada, through both its national office in Toronto and its Alberta District Council office in Calgary. The resulting co-operation provides an effective regulatory framework for the investment industry.

Lawyers who practice securities law in Alberta are organized into two securities bar groups located in Edmonton and Calgary under the auspices of the Canadian Bar Association. In addition to conducting regular meetings for their own purposes, they at times assist in the teaching of securities law at the universities in Calgary and Edmonton and during the year assisted the Commission by reviewing and commenting on proposed amendments to the Regulations under the Securities Act.

The Commission continues to communicate with the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Alberta in matters of mutual interest such as the ongoing development of and revisions to generally accepted accounting principles and generally accepted auditing standards for incorporation in the C.I.C.A. Handbook.

In addition to the outside associations and groups mentioned above, the Commission keeps in close touch with and enjoys the co-operation of numerous other agencies, among them the Toronto Stock Exchange, the Montreal Exchange, the Vancouver Stock Exchange, the Canadian Depository for Securities, the Winnipeg Commodities Exchange and the Investment Funds Institute of Canada.

While Alberta continues to be the only Province in Canada to have separate Franchise legislation, the majority of American states have such legislation, the North American Securities Administrators Association has a franchise subsection and there is an active Canadian Association of Franchisors. In addition to serving the residents of Alberta on franchise matters, the Commission continues to field questions on franchise legislation from government bodies and citizens of other provinces.

4. THE SECURITIES ACT

The definition of securities is very broad, but the more common forms are stocks, bonds, debentures and notes. It may also include the sale of partnership interests, investment contracts and tax shelters of various types. The main purpose of the Securities Act is to require issuers of securities to provide to members of the investing public who trade in securities, full, true and plain disclosure of all material information relating to the issuer, its activities (current and historical) and its officers and directors and the securities being offered in order that investors may make a reasoned and informed investment decision when purchasing new securities.

4.1 Regulation of Securities

Before an issuer is permitted to sell securities from its treasury to the public, written information must be presented to the purchaser prior to the actual sale. This material can take a number of forms. The most frequently used documents are prospectuses, statements of material facts, rights offerings, and take-over bid circulars. The structure of the issuer can vary significantly and can be a corporate entity, a limited or general partnership, or a joint venture or syndication. In addition, security offerings may be structured using a combination of the various forms of entities.

The Commission's securities section reviews these offering documents to determine that the issuer has complied with the securities legislation, its regulations and Commission policies and practices. Only after the Commission's securities staff have completed a review and the offering documents have been accepted for filing are new securities permitted to be sold to the public. In addition, securities previously issued by way of exemption may also be permitted to be sold as a secondary offering along with the primary offering of shares from treasury.

Subsequent to finalizing and clearing a prospectus or certain other offering documents related to the sale of securities, an issuer becomes a reporting issuer and must provide to its equity security holders annual reports, interim and annual financial statements, and notices of annual meetings. Insiders of an issuer must report to the Commission all trades they make in securities of the issuer in their own personal capacity.

In addition to the above forms of offering securities to the public, the Securities Act provides a large number of exemptions through which issuers may sell securities to the public. The documents required to be filed with the Commission in connection with the use of these exemptions are not reviewed by the staff of the Commission.

4.2 New and Updated Items

4.2.1 Mortgage Based Securities

A number of issues of securities were offered by way of prospectus which involved a new concept entitled "Mortgage Based Securities". The concept involves an entity purchasing a portfolio of debt instruments: (eg. a number of mortgages from a financial institution's mortgage portfolio). The entity issues equity securities to the investors, and these funds are used to acquire the mortgage portfolio. The purchase is made without recourse. This results in the financial institution being able to seek more mortgage business as it now has additional funds to lend and the investor is able to obtain a better return on his investment as a result of the underlying mortgages paying a higher rate of return. To the extent the mortgage portfolio is diversified the investor benefits from the diversification.

4.2.2 The Stock Savings Plan

The Alberta Stock Savings Plan (ASSP) legislation received Royal Assent September 18, 1986. Notwithstanding, the late proclamation, 32 Alberta issuers took advantage of the Stock Savings Program to the end of March of 1987. It is anticipated that the ASSP program will become popular once issuers are comfortable with the guidelines set out in the legislation.

4.2.3 The Alberta Stock Exchange - Exchange Offering Prospectus

The Committee formed between the Alberta Stock Exchange and the Commission continued to meet and work toward the implementation of the Alberta Stock Exchange - Exchange Offering Prospectus. It is anticipated that the systems will be implemented some time late in the 1987 calendar year.

4.2.4 Junior Capital Pool Offerings

The Commission, during the latter half of 1986 developed and implemented a policy permitting Junior Capital Pool Offerings. The process of development involved the Commission developing a draft policy, holding a series of public meetings wherein suggestions were received from the securities bar, the Alberta Stock Exchange and several promoters; various suggestions were incorporated into the Policy prior to it being implemented.

A Junior Capital Pool company is one that does its initial public financing without first having completed a business plan or having acquired any assets. Its principal asset at the time of its initial public financing is its management and investors base their investment decision on the relative strength of the company's management.

Statistically to March 31, 1987 the Commission had received 114 Junior Capital Pool filings, of which 60 had cleared the Commission and 54 were still in process. It is anticipated that this program will be very popular and that a large number of prospectus filings of this type will be made in the upcoming fiscal year.

4.2.5 Updating of Commission Policies

The Commission completed the major updating of its Commission Policies and they were proclaimed into force on March 15, 1987. It is proposed to review these policies annually to assure they are kept current to meet investor and industry needs.

4.3 Statistics

Statistically, prospectus filings in the 1986/87 fiscal year increased by 121% for preliminary prospectuses and by 9% for renewal prospectuses, representing an overall increase of 84% from the level of filings received in the 1985/86 fiscal year. The increase in volume of prospectuses results from the economic upturn in the Canadian economy as a whole, the continued activity in a buoyant stock market as previously noted, and, the implementation of the Alberta Stock Savings Plan legislation and the Junior Capital Pool policy. It is anticipated that filings will continue to increase in numbers during the next fiscal period. Orders and Rulings issued by the securities section of the Commission increased by 36%.

4.4 Regulation of Registration

Subject to the exemptions from registration found in sections 65 and 66 of the Securities Act, registration of dealers and salespeople is required before securities are traded with the public, whether the securities are in the form of common or preferred shares, mutual fund shares, bonds, debentures, term certificates or notes.

Through the registration of a dealer and its officers, directors and salesmen, the Commission strives to allow only trustworthy and knowledgeable individuals to deal with the public. Dealer registrants must at all times meet financial standards set by the Regulation to the Securities Act. In most cases dealers and/or individuals must obtain bonding.

On April 1, 1986 the Commission authorized an order transferring some registration responsibilities to the Alberta Stock Exchange and the Alberta District of the Investment Dealer's Association. These self-regulatory organizations (S.R.O.'s) are now responsible for the registration, renewal of registration and amendments thereto, of their own members and registered representatives. This transfer consisted of 28 dealers and 746 registered representatives, and is part of a continuing effort to transfer responsibility for the regulation of the securities industry to the industry itself.

The Commission staff regularly monitor those dealers who are not members of a self-regulatory organization recognized by the Commission to ensure such dealers maintain the required net free capital and follow prudent business practices. This function serves as a preventive measure and assists in related enforcement matters.

The two broad categories of registration are dealers and advisers. Dealers buy and sell securities as principals and agents, while advisers offer investment advice and/or manage investments on behalf of their clients. Fourteen new dealers, three underwriters and seven securities adviser were registered by the Commission in 1986/87. The S.R.O.'s registered four new dealers during the same period. These new firms enhance Alberta's importance as a financial center, and offer Alberta investors alternatives in their selections of investments and markets. This activity brought the total number of dealers and advisers registered in Alberta in the 1986/87 fiscal year to 135. Of these firms, 28 reported to the SRO's and 107 reported to the Commission.

The total number of salesmen registered in Alberta at March 31, 1987 was 1,949. Of these salesmen, 768 were employed by firms reporting to the SRO's and 1,181 were employed by firms reporting to the Commission.

4.5 Market Standards

4.5.1 Objectives

The goal of the Market Standards section is to encourage all participants in the securities industry to carry out their activities in compliance with the Securities and Franchises Act and the relevant Regulations and Commission policies. Under this philosophy, the Market Standards section of the Commission performs a multi-faceted role. The Market Standards section undertakes educational/preventive policing programs, surveys the securities market, monitors statutory filings, and conducts investigations into violations of the Alberta Securities Act and Franchises Act. As the "sharp end" of the Commission, the Market Standards section initiates appropriate enforcement procedures, including administrative actions before the Director or the Commission Board and provincial court prosecutions.

4.5.2 Staffing

With an authorized staff slate of 13 positions, Market Standards section personnel staff both the Edmonton main office and the Calgary investigations and part-time executive offices. The Market Standards section is presently comprised of a Director, two investigative accountants, six investigators, a disclosure technician and three support staff.

4.2.1 Enforcement Activities

Table "A" hereunder details the number of formal enforcement proceedings initiated before Commission administrative tribunals and before the courts under the Securities Act and the Franchises Act during the 1986/87 fiscal year:

Table "A"

<u>Proceedings</u>	<u>Totals</u>			
1. Questioning fitness for initial registration (Securities Act section 55)		1		
2. Questioning fitness for continued registration (Securities Act, section 56)		1		
3. Prosecutions	<u>Counts Laid</u>	<u>Convictions</u>	<u>Dismissals</u>	<u>Withdrawn Or Stayed</u>
Securities Act (S.A.)	46	72	0	17
Franchises Act (F.A.)	2	2	0	0
4. Cease Trading Orders	<u>Interim</u>	<u>Permanent</u>	<u>Revocation</u>	
(Securities Act, Sec. 165)	110	73	32	
5. Denial of Exemptions (Securities Act, Sec. 166)	12			

4.2.2 Supplementary Programs

Certain supplementary enforcement programs as shown in Table "B" are maintained.

TABLE "B"

<u>Supplementary Enforcement Program</u>	<u>TOTALS</u>
1. Insider Trading Reports	
follow-up enquiries initiated	21
2. Director and officer background checks	385
3. Exemption Application (Sec. 116 and 145) reviews	256
4. Media Surveillance: follow-up enquiries initiated	25
5. Review of originating Exchange listed reporting issuers	147

4.2.3 Investor Alert Series

In co-ordination with the Better Business Bureau, the Market Standards section publishes a quarterly "Investor Alert" bulletin for free distribution in the Commission's offices and in the Regional offices of the Department of Consumer and Corporate Affairs. The following titles were published during the 1986/87 fiscal year:

Leveraging Programs for the Purchase of Mutual Funds

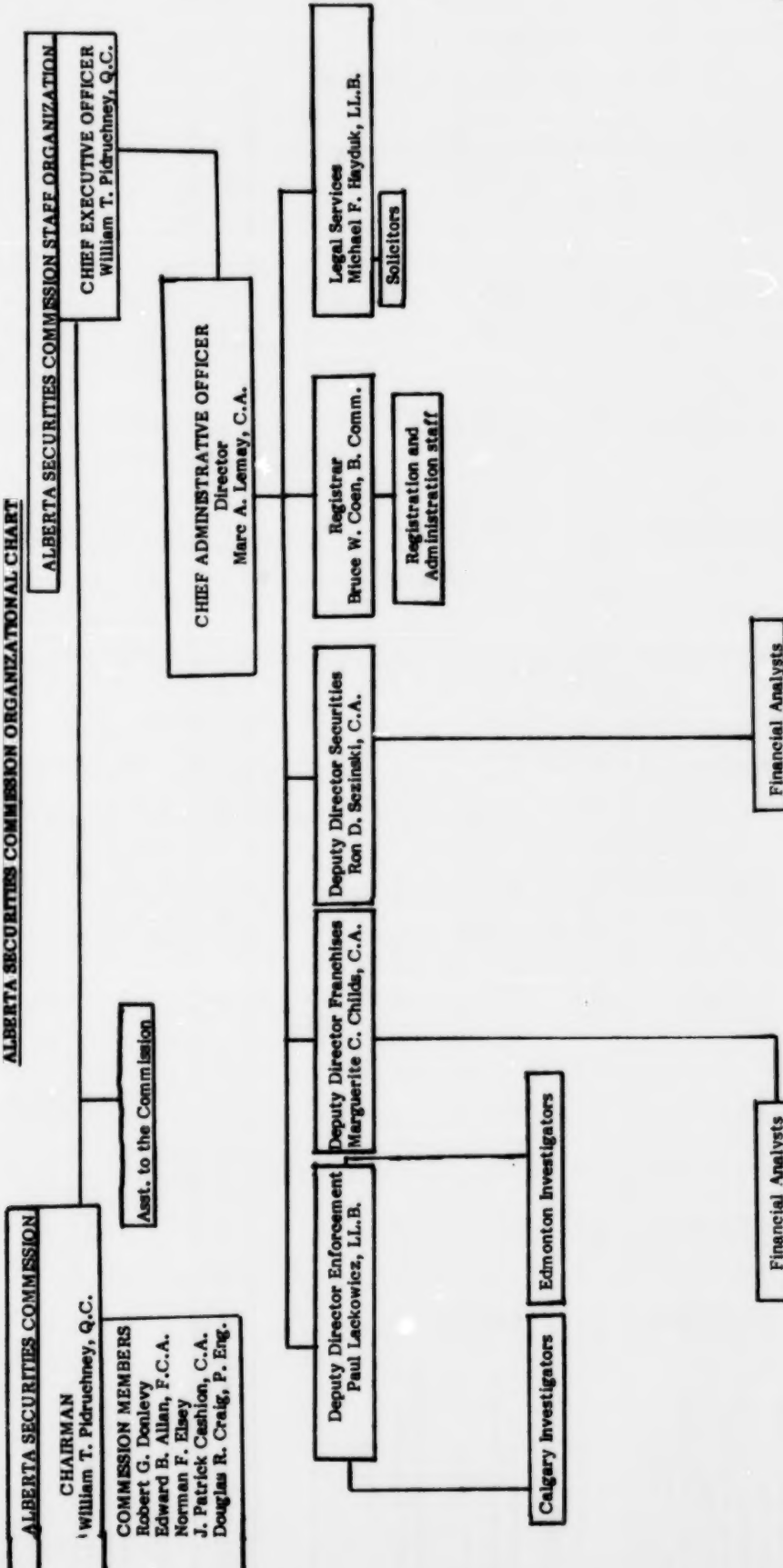
Pyramid Scheme Frauds

5. THE FRANCHISES ACT

The purpose of the Franchises Act is to provide to a potential franchise investor, full, true and plain disclosure of information with respect to the franchisor and the proposed franchise business in order that the investor can make an informed investment decision. Similar to the requirements of the Securities Act, salesmen marketing franchises are required to be registered and companies selling franchises are required to file a disclosure document. This document, which is either a prospectus or statement of material facts, is reviewed by the Commission staff. Filings received for registration, exemption from registration, extension and amendments in the 1986/87 fiscal year increased 9% over those received in 1985/86. There were 201 applications for registration or exemption from registration in 1986/87. Applications for salesmen's registrations received in 1986/87 increased 7% over those received in 1985/86.

The Franchises Act was proclaimed in effect on November 16, 1972. The Commission staff maintains contact with officials of other jurisdictions now contemplating the introduction of franchise legislation to assist in developing uniform legislation. The Commission staff participated in the North American Securities Administrators Association Subcommittee on franchising and at an Association of Canadian Franchisors conference.

ALBERTA SECURITIES COMMISSION ORGANIZATIONAL CHART



Appendix 6.2

ALBERTA SECURITIES COMMISSION

STATISTICAL INFORMATION

Applications Received Securities Act	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/1986	1986/1987	Percentage change 85/86 to 86/87
Dealer Registrations	96	103	121	132	143	127	117	119	117	107	-6%
Amendments to Dealer Registrations	146	182	223	217	238	219	200	228	260	104	-60
Preliminary Prospectuses	107	124	192	270	283	231	291	231	293	649	121
Renewal Prospectuses	106	108	125	115	150	116	130	139	145	159	9%
Sundry Filings	410	439	658	765	747	1,063	1,442	1,327	1,445	(1)	1781
Salesman Registrations	706	730	791	978	1,175	1,177	1,428	1,455	1,561	1181	-24
Salesman Transfers	56	21	38	40	137	234	227	223	128	98	-23%
Orders and Rulings	192	335	458	637	752	832	857	715	774	921	19
	1,819	2,042	2,406	3,154	3,625	3,999	4,692	4,437	4,723	5000	6%
<u>Franchisees Act</u>											
Prospectuses	49	59	96	121	128	105	100	99	117	121	3%
Application For Exemption	53	52	49	51	54	63	74	69	68	(2) 80	17%
								168	185	201	9%
Miscellaneous Applications								47	34	62	82%
Salesman Registration	67	88	122	160	157	146	162	185	214	239	7%
	169	199	267	332	339	314	336	400	433	492	14%
	1,988	2,241	2,873	3,486	3,964	4,313	5,028	4,837	5,156	5492	7%
<u>Budget Summary (3)</u>	\$607,465	1,102,430	1,962,590	2,712,965	3,731,289	3,823,170	3,086,445	2,810,570	2,741,600	2,927,230	7%
<u>Manpower</u>											
Permanent Positions	27	41	49	56	59	59	57	55	54	54	
Lawyers seconded from the Attorney General	—	—	1	2	3	3	3	4	4	4	
	27	41	50	58	62	62	60	59	58	58	

Notes (1), (2) and (3) - see page 14

Appendix 6.2 - continued

ALBERTA SECURITIES COMMISSION

STATISTICAL INFORMATION -REFERENCE NOTES

Note 1. Securities Act Sundry Filings - 1986/87

Summary Statements	4
Annual Information Statements	308
Rights Offerings	48
Statements of Material Facts	2
Amendments to Prospectuses and Statements of Material Facts	86
Take-Over Bids	72
Filings made under the closed system - Section 107, 110, 112	<u>1,261</u>
	<u>1,781</u>

Note 2. Franchise Statements of Material Facts - 1986/87

Section 2 - Applications for Statutory Exemptions	49
Section 3 - Applications for Discretionary Exemptions	<u>31</u>
	<u>80</u>

Note 3. Budget Summary

Includes special warrants in the fiscal periods ended in 1980, 1981, 1982, 1983 and 1987.

Appendix 6.3

POLICIES AMENDED OR IMPLEMENTED DURING 1986/87

6.3.1 National Policy No. 1 (Amended) Clearance of National Issues

This policy was amended to include the National Policy No. 1 Receipt System that enables the simultaneous distribution in all jurisdictions of securities issued pursuant to a prospectus.

**6.3.2 National Policy No. 37 (New):
Reciprocal Cease Trading Orders**

This policy addresses the concerns that arise from take-over bids that are made to shareholders in certain provinces but not to shareholders in all provinces in Canada.

**6.3.3 National Policy No. 38 (New):
Take-Over Bids - Defensive Tactics**

This policy advises target companies that certain defensive measures taken by management in the course of a take-over bid may have the effect of denying to shareholders the ability to make a decision on the bid and may frustrate the open take-over bid process. The securities administrators are prepared to examine target company tactics to determine whether they are abusive of shareholder rights.

6.3.4 Alberta Securities Commission Policies, Notices and Blanket Orders

6.3.4.1 As a result of the proclamation, effective on March 15, 1987, of the Securities Amendment Act, 1984 and the coming into force of the new Securities Regulations (the "Regulations") on that date, the Alberta Securities Commission (the "Commission") issued a resolution whereby it repealed effective March 15, 1987 all Commission Policies and Notices contained in the manual entitled "Alberta Securities Commission Policies and Procedures", and resolved that its new Policies and Notices would come into effect on that date.

6.3.4.2 The Commission also issued a blanket order, effective on March 15, 1987, pursuant to section 186 of the Securities Act revoking all blanket orders previously issued by the Commission where the subject matter of those orders was dealt with in:

6.3.4.2.1 the Securities Amendment Act, 1984,

6.3.4.2.2 the Regulations, or

6.3.4.2.3 the Commission's new Policies, Notices and Blanket Orders,

or was no longer required. Blanket orders not referred to in the section 186 blanket order continued to have force and effect after March 15, 1987.